

## Farm Credit Administration

## § 652.35

on interest rate risk must be specifically identified in the report and approved by the board, or a designated committee of the board.

### § 652.35 Liquidity reserve management and requirements.

(a) *Minimum liquidity reserve requirement.* Within 24 months of this rule becoming effective, and thereafter, Farmer Mac must hold cash, eligible non-program investments under § 652.35 of this subpart, and/or on-balance sheet securities backed by portions of Farmer Mac program assets (loans) that are guaranteed by the United States Department of Agriculture as described in section 8.0(9)(B) of the Act (in accordance with the requirements of paragraphs (b) and (c) of this section), to maintain sufficient liquidity to fund a minimum of 60 days of maturing obligations, interest expense, and operating expenses at all times. You must document your compliance with this minimum reserve requirement at least once each month as of the last day of the month using month-end data. Liquid asset values must be marked to market. In addition, you must have the capability and information systems in place to be able to calculate the minimum reserve requirement on a daily basis.

(b) *Free of lien.* All investments held for the purpose of meeting the liquidity reserve requirement of this section must be free of liens or other encumbrances.

(c) *Discounts.* The amount that may be counted to meet the minimum liquidity reserve requirement is as follows:

(1) For cash and overnight investments, multiply the cash and investments by 100 percent;

(2) For money market instruments with maturities of 5 business days or less, multiply the instruments by 97 percent of market value;

(3) For money market instruments with maturities greater than 5 business days and floating-rate debt and preferred stock securities, multiply the instruments and securities by 95 percent of market value;

(4) For diversified investment funds, multiply the individual securities in the funds by the discounts that would

apply to the securities if held separately;

(5) For fixed-rate debt and preferred stock securities, multiply the securities by 90 percent of market value;

(6) For securities backed by Farmer Mac program assets (loans) guaranteed by the United States Department of Agriculture as described in section 8.0(9)(B) of the Act, multiply the securities by 75 percent; and

(7) We reserve the authority to modify or determine the appropriate discount for any investment used to meet the minimum liquidity reserve requirement if the otherwise applicable discount does not accurately reflect the liquidity of that investment or if the investment does not fit wholly within one of the specified investment categories. In making any modification or determination, we will consider the liquidity of the investment as well as any other relevant factors. We will provide notice of at least 20 business days before any modified discounts will take effect.

(d) *Liquidity reserve policy—board responsibilities.* Farmer Mac's board of directors must adopt a liquidity reserve policy. The board must also ensure that management uses adequate internal controls to ensure compliance with the liquidity reserve policy standards, limitations, and reporting requirements established pursuant to this paragraph and to paragraphs (e), (f), and (g) of this section. At least annually, the board of directors or a designated subcommittee of the board must review and validate the liquidity policy's adequacy. The board of directors must approve any changes to the policy. You must provide a copy of the revised policy to FCA's Office of Secondary Market Oversight within 10 business days of adoption.

(e) *Liquidity reserve policy—content.* Your liquidity reserve policy must contain at a minimum the following:

(1) The purpose and objectives of liquidity reserves;

(2) A listing of specific assets, debt, and arrangements that can be used to meet liquidity objectives;

(3) Diversification requirements of your liquidity reserve portfolio;

(4) Maturity limits and credit quality standards for non-program investments

## § 652.35, Nt.

## 12 CFR Ch. VI (1–1–14 Edition)

used to meet the minimum liquidity reserve requirement of paragraph (a) of this section;

(5) The minimum and target (or optimum) amounts of liquidity that the board believes are appropriate for Farmer Mac;

(6) The maximum amount of non-program investments that can be held for meeting Farmer Mac's liquidity needs, as expressed as a percentage of program assets and program obligations;

(7) Exception parameters and post approvals needed;

(8) Delegations of authority; and

(9) Reporting requirements.

(f) *Liquidity reserve reporting—periodic reporting requirements.* At least quarterly, Farmer Mac's management must report to the Corporation's board of directors or a designated subcommittee of the board describing, at a minimum, liquidity reserve compliance with the Corporation's policy and this section. Any deviations from the board's liquidity reserve policy (other than requirements specified in § 652.20(e)(5)) must be specifically identified in the report and approved by the board of directors.

(g) *Liquidity reserve reporting—special reporting requirements.* Farmer Mac's management must immediately report to its board of directors any non-compliance with board policy requirements that are specified in § 652.20(e)(5). Farmer Mac must report, in writing, to FCA's Office of Secondary Market Oversight no later than the next business day following the discovery of any breach of the minimum liquidity reserve requirement at § 652.20(a).

EFFECTIVE DATE NOTE: At 78 FR 65553, Nov. 1, 2013, § 652.35 was revised, effective 180 days after date of publication in the FEDERAL REGISTER, provided either or both Houses of Congress are in session for at least 30 calendar days after publication of this regulation. For the convenience of the user, the revised text is set forth as follows:

### § 652.35 Liquidity management.

(a) *Liquidity policy—board responsibilities.* Farmer Mac's board of directors must adopt a liquidity policy, which may be integrated into a comprehensive asset-liability management or enterprise-wide risk management policy. The risk tolerance embodied in the liquidity policy must be consistent with the investment management policies required by § 652.10 of this subpart. The board must ensure that management uses adequate inter-

nal controls to ensure compliance with its liquidity policy. At least annually, the board of directors or a designated committee of the board must review the sufficiency of the liquidity policy. The board of directors must approve any changes to the policy. You must provide a copy of the revised liquidity policy to the OSMO within 10 business days of adoption.

(b) *Policy content.* Your liquidity policy must contain at a minimum the following:

(1) The purpose and objectives of liquidity reserves;

(2) Diversification requirements for your liquidity reserve portfolio;

(3) The minimum and target (or optimum) amounts of liquidity that the board has established for Farmer Mac, expressed in days of maturing obligations;

(4) The maximum amount of non-program investments that can be held for meeting Farmer Mac's liquidity needs, expressed as a percentage of program assets and program obligations;

(5) Exception parameters and approvals needed with respect to the liquidity reserve;

(6) Delegations of authority pertaining to the liquidity reserve;

(7) Reporting requirements which must comply with the requirements under paragraph (c) of this section;

(c) *Reporting requirements.* (1) *Board reporting.* (i) *Periodic.* At least quarterly, Farmer Mac's management must report to Farmer Mac's board of directors or a designated committee of the board describing, at a minimum, the status of Farmer Mac's compliance with board policy and the performance of the liquidity reserve portfolio.

(ii) *Special.* Management must report any deviation from Farmer Mac's liquidity policy, or failure to meet the board's liquidity targets to the board before the end of the quarter if such deviation or failure has the potential to cause material loss.

(2) *OSMO reporting.* Farmer Mac must report, in writing, to the OSMO no later than the next business day following the discovery of any breach of the minimum liquidity reserve requirement in § 652.40 of this subpart.

(d) *Liability maturity management plan.* Farmer Mac must have a liability maturity management plan (LMMP) that its board of directors reviews and approves at least once each year. The LMMP must establish a funding strategy that provides for effective diversification of the sources and tenors of funding, and considers Farmer Mac's risk profile and current market conditions. The LMMP must include targets of acceptable ranges of the proportion of debt maturing within specific time periods.

(e) *Contingency funding plan.* (1) *General.* Farmer Mac must have a CFP to ensure sources of liquidity are sufficient to fund normal operations under a variety of stress

## Farm Credit Administration

## § 652.40

events. Such stress events include, but are not limited to market disruptions, rapid increase in contractually required loan purchases, unexpected requirements to fund commitments or revolving lines of credit or to fulfill guarantee obligations, difficulties in renewing or replacing funding with desired terms and structures, requirements to pledge collateral with counterparties, and reduced market access.

(2) *CFP requirements.* Farmer Mac must maintain an adequate level of unencumbered and marketable assets (as defined in § 652.40(a) and (b) of this subpart) in its liquidity reserve that can be converted into cash to meet its net liquidity needs for 30 days based on estimated cash inflows and outflows under an acute stress scenario. The board of directors must review and approve the CFP at least once each year and must make adjustments to reflect changes in the results of stress tests, Farmer Mac's risk profile, and market conditions.

(3) The CFP must:

(i) Be customized to the financial condition and liquidity risk profile of Farmer Mac, the board's liquidity risk tolerance, and Farmer Mac's business model;

(ii) Identify funding alternatives that can be implemented as access to funding is impeded;

(iii) Establish a process for managing events that imperil Farmer Mac's liquidity. The process must assign appropriate personnel and executable action plans to implement the CFP;

(iv) Require periodic stress testing that analyzes the possible impacts on Farmer Mac's cash flows, liquidity position, profitability, and solvency for a wide variety of stress scenarios.

### § 652.40 Liquidity reserve requirement and supplemental liquidity.

(a) *Unencumbered.* All investments that Farmer Mac holds in its liquidity reserve and as supplemental liquidity in accordance with this section must be unencumbered. For the purposes of this section, an investment is unencumbered if it is free of lien, and it is not explicitly or implicitly pledged to secure, collateralize, or enhance the credit of any transaction.

Additionally, an unencumbered investment held in the liquidity reserve cannot be used as a hedge against interest rate risk if liquidation of that particular investment would expose Farmer Mac to a material risk of loss.

(b) *Marketable.* All investments that Farmer Mac holds in its liquidity reserve in accordance with this section must be readily marketable. For purposes of this section, an investment is readily marketable if it:

(1) Can be easily and quickly converted into cash with little or no loss in value;

(2) Exhibits low credit and market risk;

(3) Has ease and certainty of valuation; and,

(4) Except for money market instruments, can be easily sold or converted to cash through repurchase agreements in active and sizable markets without significantly affecting prices.

(c) *Liquidity reserve requirement, supplemental liquidity, and discounts.* Farmer Mac must maintain at all times a liquidity reserve sufficient to fund at least 90 days of the principal portion of maturing obligations and other borrowings. Farmer Mac must also hold supplemental liquid assets sufficient to fund obligations and other borrowings maturing after 90 calendar days to meet board liquidity policy in accordance with § 652.35. At a minimum, Farmer Mac must hold instruments in the liquidity reserve, and as supplemental liquidity, that are listed and discounted in accordance with the following table, and are sufficient to cover:

(1) Days 1 through 15 only with Level 1 instruments;

(2) Days 16 through 30 only with Level 1 and Level 2 instruments; and,

(3) Days 31 through 90 with Level 1, Level 2, and Level 3 instruments.

TABLE TO § 652.40(c)

Liquidity level	Instruments	Discount (multiply market value by)
Level 1 .....	<ul style="list-style-type: none"> <li>Cash, including cash due from traded but not yet settled debt.</li> <li>Overnight money market instruments, including repurchase agreements secured exclusively by Level 1 investments.</li> <li>Obligations of the United States with a final remaining maturity of 3 years or less.</li> </ul>	<p>100 percent.</p> <p>100 percent.</p> <p>97 percent.</p>